



J. TYLER McCAULEY
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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February 8, 2006

TO: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **AUDIT OF THE LOS ANGELES COUNTY FLOOD
CONTROL DISTRICT FOR THE YEAR ENDED JUNE 30, 2005**

Attached is the audit of the financial statements for the Los Angeles County Flood Control District (District) for the year ended June 30, 2005. The audit was conducted by Simpson & Simpson, Certified Public Accountants (Simpson), under the Auditor-Controller's master agreement for audit services.

Simpson issued an unqualified opinion on the District's financial statements, indicating that the statements are presented fairly, in conformity with accounting principles generally accepted in the United States of America and State regulations governing special districts. Simpson identified no material weaknesses involving the District's internal controls over financial reporting requirements.

Please call if you have any questions, or your staff may call Jim Schneiderman at (626) 293-1011.

JTM:MMO:JLS:TK
H:\FCD 6-30-05 Board Letter

Attachments

c: David E. Janssen, Chief Administrative Officer
Donald L. Wolfe, Director, Department of Public Works
Violet Varona-Lukens, Executive Officer, Board of Supervisors
Public Information Officer
Audit Committee

"To Enrich Lives Through Effective and Caring Service"



Los Angeles County Flood Control District



Annual Financial Report Fiscal Year Ended June 30, 2005 Director Donald L. Wolfe



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CERTIFIED PUBLIC ACCOUNTANTS

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Mr. J. Tyler McCauley
Auditor-Controller
County of Los Angeles
Los Angeles, California

**Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

We have audited the accompanying financial statements of the governmental activities and each major fund of the Los Angeles County Flood Control District (District), California, as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the table of contents. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the County of Los Angeles Board of Supervisors and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Los Angeles, California
December 20, 2005



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BOARD OF SUPERVISORS

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Mayor, Los Angeles County

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First District

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Third District

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Executive Officer
Board of Supervisors

CONTRIBUTING COUNTY OFFICIALS

Donald L. Wolfe
Director of Public Works

David E. Janssen
Chief Administrative Officer

J. Tyler McCauley
Auditor-Controller

Mark J. Saladino
Treasurer and Tax Collector

Raymond G. Fortner, Jr.
County Counsel

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT

Annual Financial Report
Fiscal Year Ended June 30, 2005

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Mr. J. Tyler McCauley
Auditor-Controller
County of Los Angeles
Los Angeles, California

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Los Angeles County Flood Control District (District), California, as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis identified in the accompanying table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Los Angeles, California
December 20, 2005



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**LOS ANGELES COUNTY
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Los Angeles County Flood Control District (District) financial performance provides a narrative overview and analysis of the District's financial activities for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements, notes, and supplementary information.

The District is a component of a larger governmental unit, the County of Los Angeles (County). We also encourage readers to use the Comprehensive Annual Financial Report of the County of Los Angeles to provide perspective on the government-wide statements and on how the District is a component of those statements.

FINANCIAL HIGHLIGHTS

At the end of the current year, the net assets (total assets less total liabilities) of the District were \$192 million.

During the year, the District's net assets increased by \$50 million. The increase was a result of the District's governmental activities. The District has no business-type activities to report.

At the end of the current year, the District's General Fund reported a total fund balance of \$119 million. The amount of unreserved and undesignated fund balance was \$7 million.

The District's capital assets balance, \$190 million at year-end, increased by \$36 million during the year. Infrastructure assets are reflected only to the extent that they were acquired since July 1, 2001. Retroactive infrastructure reporting has been deferred until a future year as discussed on pages 26 and 27.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts, Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information (RSI). The basic financial statements are comprised of the following three components:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

**LOS ANGELES COUNTY
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Government-wide Financial Statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference representing net assets. Over time, increases or decreases in the District's net assets may serve as an indicator of whether its financial health is improving or deteriorating.

The Statement of Activities presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that affect cash flows in future periods. For example, property tax revenues have been recorded that have been earned but not yet collected and workers' compensation expenses have been accrued but not yet paid.

The Government-wide Financial Statements of the District report on one category, governmental activities, as the District has no business-type activities or discretely presented component units that the District is financially accountable for.

Governmental Activities - All of the District's basic services are included here. Property taxes and benefit assessments finance almost all of the District's flood control activities.

FUND FINANCIAL STATEMENTS

The Fund Financial Statements are designed to provide more detailed information about the District's significant funds. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes. The District has two kinds of funds:

Governmental Funds – All of the District's basic services are included in the governmental funds that focus on how resources flow in and out and show the balances remaining at year-end that are available for spending. The Governmental Funds Statements provide a detailed short-term view that helps readers determine whether there are more or fewer financial resources that can be spent in the near future on the District's activities. Because this information does not encompass the additional long-term focus of the government-wide statements, we show the relationship between governmental activities and governmental funds using the reconciliations on pages 15 and 18 and the Notes to the Basic Financial Statements.

**LOS ANGELES COUNTY
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

Fiduciary Funds – These funds are used to report assets held in an agency capacity for others and cannot be used to support the District's activities. The District's Agency funds are reported in this fund category using the accrual basis of accounting.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the Government-wide and the Fund Financial Statements. The notes can be found beginning on page 21 of this report.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the District's budget and actual revenues and expenditures on a budgetary basis. The RSI can be found on pages 36 through 39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A comparative analysis of government-wide data is available and presented under the reporting model required by Governmental Accounting Standards Board (GASB) Statement No. 34. The District does not have business-type activities to report.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$192 million at the close of the most recent fiscal year (see Table 1).

**LOS ANGELES COUNTY
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

Table 1

**Summary of Net Assets
As of June 30, 2004 and 2005
(in thousands)**

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Current and other assets	\$140,646	\$143,593
Capital assets	<u>189,764</u>	<u>153,945</u>
Total assets	<u>\$330,410</u>	<u>\$297,538</u>
Current and other liabilities	\$ 10,859	\$ 13,271
Long-term liabilities	<u>127,272</u>	<u>141,989</u>
Total liabilities	<u>138,131</u>	<u>155,260</u>
Net assets:		
Invested in capital assets, net of related debt	67,884	16,000
Restricted net assets	1,700	3,313
Unrestricted net assets	<u>122,695</u>	<u>122,965</u>
Total net assets	<u>192,279</u>	<u>142,278</u>
Total liabilities and net assets	<u>\$330,410</u>	<u>\$297,538</u>

Capital Assets, Net of Related Debt

The District's capital assets, net of related debt, are \$68 million. This reflects an increase of \$52 million over the previous year (\$16 million). The increase resulted from the purchase of land and infrastructure assets (\$36 million) and payment of debt (\$16 million). As discussed below, the District has not yet recorded infrastructure assets acquired prior to July 1, 2001. However, the District has issued debt in previous years to acquire such infrastructure assets. At June 30, 2005, the District reported bonds payable of \$122 million that were related to unrecorded infrastructure assets. Accordingly, this category of net assets will continue to be significantly less until the District records the retroactive infrastructure assets associated with the outstanding debt.

The District began to capitalize newly acquired infrastructure assets during the 2001-02 fiscal year in accordance with GASB 34. However, infrastructure assets acquired prior to July 1, 2001, are not yet reflected in the financial statements. The District is in the process of analyzing its infrastructure assets that were acquired in prior years to ensure that they are reported by the year ending June 30, 2006, as required by GASB 34 for government agencies with annual revenues of \$100 million or more.

**LOS ANGELES COUNTY
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

Restricted Net Assets

The District's restricted net assets at year-end were \$2 million. The asset restriction is imposed by bond covenants that require reserves over the repayment period of the bond amortization schedule.

Unrestricted Net Assets

The largest portion of the District's net assets is classified as unrestricted. This amount, \$123 million, may be used to meet the District's ongoing financial requirements.

Governmental Activities

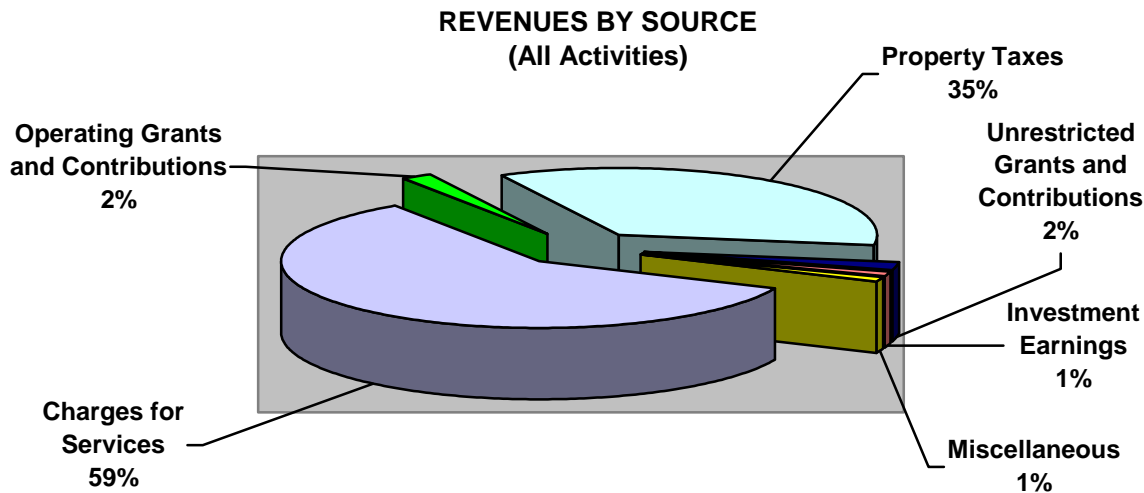
Table 2 indicates the changes in net assets for the governmental activities.

Table 2

**Summary of Changes in Net Assets
For the Years Ended June 30, 2004 and 2005
(in thousands)**

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Revenues:		
Program revenues:		
Charges for services	\$118,708	\$120,566
Operating grants and contributions	4,931	5,600
Capital grants and contributions	926	533
General revenues:		
Property taxes	70,937	72,723
Unrestricted grants and contributions	2,984	3,197
Investment earnings	2,582	957
Miscellaneous	<u>2,409</u>	<u>2,269</u>
Total revenues	<u>\$203,477</u>	<u>\$205,845</u>
Expenses:		
Public protection	\$147,333	\$149,317
Contributions to Los Angeles County	609	1,306
Interest on long-term debt	<u>5,534</u>	<u>6,199</u>
Total expenses	<u>\$153,476</u>	<u>\$156,822</u>
Changes in net assets	\$ 50,001	\$ 49,023
Net assets – beginning	<u>142,278</u>	<u>93,255</u>
Net assets – ending	<u>\$192,279</u>	<u>\$142,278</u>

**LOS ANGELES COUNTY
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**



The District's changes in net assets increased by \$1 million over the prior year's. Following are the major factors that contributed to the net asset changes:

- Revenues from governmental activities decreased by \$2 million (1%) from the previous year. The most significant changes in revenue were experienced in the following areas:
 - Charges for services were \$2 million (2%) lower than the previous year due to the previous year's receipt of a court settlement for the County vs. Atlantic Richfield, et al., and this year's decrease in rental payments from the County to the District for its occupancy of the Public Works headquarters building.
 - Operating grants and contributions were \$1 million (12%) lower than the previous year. This is mainly due to previous year's receipt of \$5 million in reimbursements from the Federal Emergency Management Agency (FEMA) for the 1994 Northridge Earthquake Disaster and 1993 Storm Disaster projects and the District headquarters seismic retrofit project. Previous year's receipt of reimbursements from FEMA was partially offset by current year's billings to: (1) Water Replenishment District of Southern California for its 50% share (\$1 million) of the Whittier Narrows Conservation Pool Litigation final settlement costs and (2) FEMA (\$3 million) for the Little Dalton Debris Basin Seismic Strengthening and Big Tujunga Dam Seismic Rehabilitation projects.
 - Property taxes were \$2 million (2%) lower than the previous year. This is mainly due to an overall decrease in requirements for the debt service schedule. The property tax rate is established based upon the debt service requirement and the assessed valuation of property within the District.

**LOS ANGELES COUNTY
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

- Investment earnings increased by \$2 million (170%) as a result of an increase in the yield from the County's Treasury Pool from 1.37% in the previous year to 2.16% in the current year. The District deposits all cash receipts in the County's Treasury Pool and the County manages the day-to-day investments of the District.
- Governmental activity expenses were \$3 million (2%) lower than previous year due to decreases in public protection spending, costs associated with shared equipment, and interest on long-term debt on scheduled debt service payments.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure compliance with finance-related legal requirements.

Types of governmental funds reported by the District include the General, Debt Service, and Capital Projects Funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported a combined fund balance of \$121 million, with no change from the previous year's fund balance. The current year-end fund balance consists of \$96 million in reserves to indicate the extent that the funds have been committed or are otherwise unavailable for spending and \$18 million in designations that have been set aside for specific infrastructure improvements. The remaining \$7 million is unreserved and undesignated and is available for spending for flood control purposes.

Revenues from the District's governmental funds, primarily the General Fund, were \$203 million, a decrease of \$3 million (2%) from the previous year. The benefit assessment revenue, included as charges for services, of \$110 million was the major source of revenue for the governmental funds. The other significant source of revenue for the governmental funds was property taxes, which were \$71 million. Property taxes decreased \$2 million (2%) from the previous year. Together, these two revenue sources account for 89% of total revenues for all the governmental funds. Expenditures for the governmental funds totaled \$204 million, with no change from the previous year. In the current year, expenditures for governmental activities exceeded revenues by \$1 million.

**LOS ANGELES COUNTY
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgetary Summary – Revenues/Financing Sources

Table 3 is a summary of current year budgetary changes and actual results for the District's General Fund revenues and other financing sources (in thousands).

Table 3

<u>Category</u>	Increase (Decrease) From Original Budget	Final Budget Amount	Actual Amount	Variance - Positive (Negative)
Taxes	\$7,058	\$ 68,951	\$ 68,675	\$ (276)
Intergovernmental revenues	-	11,932	8,840	(3,092)
Charges for services	-	112,397	112,602	205
All other revenues	338	12,712	10,275	(2,437)
Other sources and transfers	-	200	1,281	1,081
Long-term debt proceeds	-	27,810	-	(27,810)
Changes in reserves/designations	-	1,378	4,153	2,775
Total	\$7,396	\$235,380	\$205,826	\$(29,554)

Changes from Amounts Originally Budgeted

During the year, the budgeted tax revenues were increased by \$7 million. The District's policy is to increase the budget for certain tax revenues that exceed the amounts originally budgeted. The revised budget action occurs at the end of the fiscal year and is designed to demonstrate compliance with legal provisions related to the appropriation of revenues from taxes.

Actual Revenues/Financing Sources Compared With Final Budget Amounts

Actual revenues and other financing sources recognized by the District's General Fund were \$30 million less than budget. The variance mainly resulted from the following:

- Delay in the reimbursements of (1) \$3 million from the State Proposition 40 grant for the Ballona Creek Watershed, Manhattan Beach Diversion, Sun Valley Watershed Management Plan, and Dominguez Watershed projects and (2) \$2 million from FEMA for the District headquarters seismic retrofit project. It is anticipated that the construction phase of the District headquarters seismic retrofit project will commence next fiscal year, and the FEMA reimbursement for this project will be rebudgeted then. Also, the total \$5 million delay in reimbursements was partially offset by revenues from FEMA for the Little Dalton Debris Basin Seismic Strengthening and Big Tujunga Dam Seismic Rehabilitation projects.

**LOS ANGELES COUNTY
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

- Anticipated increase in rental payments from the County to the District not realized. According to the cost-sharing agreement between the County and the District, the County is to make rental payments to the District in exchange for its occupancy of the Public Works headquarters building and also pay for its proportionate share of the headquarters operating costs. In Fiscal Year 2004-05, the District budgeted higher rental revenue in anticipation of an increase in scheduled debt payments and in refurbishment costs of the headquarters building. Because the scheduled debt payments were delayed and the refurbishment costs were underrealized, the County's rental payments to the District were less than anticipated.
- Long-term debt proceeds (\$28 million) not realized. The long-term debt proceeds will be rebudgeted next fiscal year to finance the construction phase of the District headquarters seismic retrofit project.
- Reserves totaling \$4 million were decreased as a result of the cancellation of existing contracts and purchase orders, resulting in additional unreserved funds.

Budgetary Summary - Expenditures/Other Financing Uses

Table 4 is a summary of current year budgetary changes and actual results for the District's General Fund expenditures, contributions to Los Angeles County, and contingencies (in thousands).

Table 4

<u>Category</u>	<u>Increase (Decrease) From Original Budget</u>	<u>Final Budget Amount</u>	<u>Actual Amount</u>	<u>Variance - Positive</u>
Public Protection	\$ 338	\$241,497	\$206,837	\$34,660
Contributions to Los Angeles County	-	1,874	609	1,265
Contingencies	7,058	7,111	-	7,111
Total	\$7,396	\$250,482	\$207,446	\$43,036

Changes from Amounts Originally Budgeted

During the year, the District's General Fund contingencies were increased by \$7 million as a result of actual tax revenues exceeding the original budget. The District's policy is to increase the budget for certain tax revenues that exceed the amounts originally budgeted. As indicated previously, the revised budget action occurs at the end of the fiscal year and is designed to demonstrate compliance with legal provisions related to the appropriation of revenues from taxes.

**LOS ANGELES COUNTY
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

Actual Expenditures/Other Financing Uses Compared with Final Budget Amounts

Actual expenditures and other financing uses of the District's General Fund were \$43 million lower than budgeted. The variance of \$35 million in the public protection category resulted from changes in the District's project schedule that occurs as a result of various circumstances that delay the award of a project for construction. Project delays are anticipated and an inventory of projects is kept to replace projects that remain in the planning stage or are delayed. The majority of the variance in public protection resulted from the delay in the construction phase of the District headquarters seismic retrofit project (\$28 million) and the District headquarters refurbishment project (\$2 million).

Contributions to Los Angeles County were \$1 million less than budgeted. The variance is a result of the contribution actually needed from the District to the County for equipment purchases. The District provides a residual equity transfer annually to the County to finance new equipment purchases that are owned by the County and utilized by the District for flood control activities.

Contingency appropriations of \$7 million were not utilized. The amount budgeted in this account was not eligible to be spent. The contingency appropriations were established to demonstrate compliance with legal provisions related to the appropriation of revenues from taxes in excess of the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had \$190 million invested in capital assets including land, buildings and improvements, infrastructure, and equipment (see Table 5).

The District's capital assets increased \$36 million (23%) from the prior fiscal year:

Table 5
Changes in Capital Assets, Net of Depreciation (in thousands)

	Current Year	Prior Year	Increase (Decrease)
Land	\$ 5,237	\$ 4,438	\$ 799
Buildings and improvements (B&I)	43,611	44,757	(1,146)
Infrastructure	85,397	54,140	31,257
Equipment	255	281	(26)
Construction-in-progress - B&I	3,736	2,941	795
Construction-in-progress - infrastructure	51,528	47,388	4,140
Total	\$189,764	\$153,945	\$35,819

**LOS ANGELES COUNTY
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

Current year infrastructure costs were capitalized for projects that remained in progress at the end of the year. The value of construction-in-progress at June 30, 2005, was \$52 million and the value will remain classified within the Construction-in-Progress category until the assets are completed.

This year's infrastructure asset additions of \$32 million were as follows (assets addition values are shown before depreciation is deducted):

Channel Improvements

- Pico Canyon Channel Stabilizers and Invert Access Ramp (\$1,559,000)
- Santa Clara River – South Fork Interim Rock Groins (\$134,000)
- Puente Creek, Puente Creek – North Fork and South Fork (\$1,243,000)

Dam Improvement

- Puddingstone Diversion Dam Gate Modifications (\$283,000)

Flood Barrier Projects

- Dominquez Gap Barrier Project, Phase 4A, Unit 7B, Part 2B (\$13,711,000)
- West Coast Basin Barrier Project (\$350,000)

Storm Drain Improvements

- Hollyhills Drain, Unit 7 (\$7,119,000)
- Palos Verdes – Walteria Drain (\$4,819,000)
- Glendora High School Drain (\$539,000)
- Rubio Diversion Invert Repair (\$423,000)
- Puddingstone Channel Unit 3 – Ramona Avenue Lateral (\$401,000)
- Project No. 5241 Low Flow Diversion at Westchester (\$474,000)
- Various storm drain improvement projects (\$784,000)

Debt Administration

At June 30, 2005, the District had \$122 million in long-term debt. The District's long-term debt consisted of \$2 million in voter-approved general obligation bonds and \$120 million in revenue bonds. The District's long-term debt decreased by \$16 million (12%) in the current year as a result of scheduled debt service payments.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the District's Financial Management Branch at the Department of Public Works, 900 South Fremont Avenue, 7th Floor, Alhambra, California 91803-1331.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005 (in thousands)

	GOVERNMENTAL ACTIVITIES
ASSETS	
Pooled cash and investments (Notes 1 and 3)	\$ 116,260
Advances to other funds	6,544
Other investments	17
Taxes receivable	14,365
Interest receivable	285
Other receivables	3,175
Capital assets: (Notes 1 and 4)	
Land and construction-in-progress	\$ 60,501
Other capital assets, net of depreciation	129,263
Total capital assets	189,764
TOTAL ASSETS	330,410
LIABILITIES	
Accounts payable	5,442
Accrued interest payable	1,719
Deferred revenue	3,698
Noncurrent liabilities: (Notes 5 and 7)	
Due within one year	16,210
Due in more than one year	111,062
TOTAL LIABILITIES	138,131
NET ASSETS	
Invested in capital assets, net of related debt	67,884
Restricted for:	
Capital projects	116
Debt service	1,584
Unrestricted	122,695
TOTAL NET ASSETS	\$ 192,279

The notes to the basic financial statements are an integral part of this statement.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005 (in thousands)**

		Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental activities:					
Public protection	\$ 147,333	118,708	4,931	926	\$ (22,768)
Contributions to Los Angeles County	609				(609)
Interest on long-term debt	5,534				(5,534)
Total	\$ 153,476	118,708	4,931	926	(28,911)
General revenues:					
Property taxes					70,937
Grants and contributions not restricted to special programs					2,984
Investment earnings					2,582
Miscellaneous					2,409
Total general revenues					78,912
Change in net assets					50,001
Net assets - July 1, 2004					142,278
Net assets - June 30, 2005					\$ 192,279

The notes to the basic financial statements are an integral part of this statement.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005 (in thousands)**

	GENERAL	DEBT SERVICE	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
ASSETS:				
Pooled cash and investments (Notes 1 and 3)	\$ 114,738	1,423	99	\$ 116,260
Advances to other funds	6,544			6,544
Other investments			17	17
Taxes receivable	6,710	766		7,476
Interest receivable	281	4		285
Assessments receivable	6,889			6,889
Other receivables	3,175			3,175
TOTAL ASSETS	\$ 138,337	2,193	116	\$ 140,646
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 5,442			\$ 5,442
Deferred revenue	13,448	590		14,038
TOTAL LIABILITIES	\$ 18,890	590		\$ 19,480
FUND BALANCES:				
Reserved for:				
Encumbrances	\$ 91,506			\$ 91,506
Other	3,008			3,008
Debt Service		1,603		1,603
Unreserved:				
Designated	18,099			18,099
Undesignated	6,834		116	6,950
TOTAL FUND BALANCES	\$ 119,447	1,603	116	\$ 121,166
TOTAL LIABILITIES AND FUND BALANCES	\$ 138,337	2,193	116	\$ 140,646

The notes to the basic financial statements are an integral part of this statement.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005 (in thousands)**

Fund balance of total governmental funds (page 14) \$ 121,166

**Amounts reported for governmental activities in the Statement of
Net Assets are different because:**

**Capital assets in governmental activities are not current financial
resources and therefore are not reported in governmental funds:**

Land	\$	5,237	
Construction-in-progress		55,264	
Buildings and improvements - net		43,611	
Equipment - net		255	
Infrastructure - net		85,397	189,764

**Other long-term assets are not available to pay for current-
period expenditures and are deferred, or not recognized,
in governmental funds:**

Deferred revenue	10,340
Accrued interest payable is not recognized in governmental funds	(1,719)

**The following long-term liabilities are not due and payable in the
current period and therefore are not reported in the governmental funds:**

Bonds and notes payable	(121,880)	
Litigation/self insurance	(5,392)	(127,272)

Net assets of governmental activities (page 12) \$ 192,279

The notes to the basic financial statements are an integral part of this statement.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005 (in thousands)**

	GENERAL	DEBT SERVICE	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Taxes	\$ 68,576	2,418		\$ 70,994
Licenses and permits	308			308
Fines, forfeitures, and penalties	1,205	21		1,226
Interest	2,509	54	19	2,582
Rents and royalties	5,191			5,191
Intergovernmental revenues:				
Federal	4,065			4,065
State	2,633			2,633
Other	2,142			2,142
Charges for services	112,653			112,653
Miscellaneous	1,128			1,128
TOTAL REVENUES	200,410	2,493	19	202,922
EXPENDITURES:				
Current public protection:				
Services and supplies	179,034			179,034
Other charges	329	1		330
Principal		16,065		16,065
Interest		5,676		5,676
Capital outlay	2,439			2,439
TOTAL EXPENDITURES	181,802	21,742		203,544
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	18,608	(19,249)	19	(622)

Continued...

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS - Continued
FOR THE YEAR ENDED JUNE 30, 2005 (in thousands)**

	GENERAL	DEBT SERVICE	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
OTHER FINANCING SOURCES (USES):				
Sales of capital assets	\$ 1,281			\$ 1,281
Transfers in		17,582		17,582
Transfers out	(17,578)		(4)	(17,582)
Contributions to Los Angeles County	(609)			(609)
OTHER FINANCING SOURCES (USES)	(16,906)	17,582	(4)	672
 NET CHANGE IN FUND BALANCES	 1,702	 (1,667)	 15	 50
 FUND BALANCE - BEGINNING	 117,745	 3,270	 101	 121,116
 FUND BALANCE - ENDING	 \$ 119,447	 1,603	 116	 \$ 121,166

The notes to the basic financial statements are an integral part of this statement.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005 (in thousands)**

Net change in fund balances - total governmental funds (page 17)	\$	50
--	----	----

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Expenditures for general capital assets, infrastructure and other related capital asset adjustments	\$	37,604	
Less - current year depreciation expense		(1,785)	35,819

Revenue timing differences result in less revenue in Government-wide Statements	(727)
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Repayment of bond principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the Statement of Net Assets	16,065
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Accrued interest for bonds payable; this is the net change in accrued interest for the current period	142
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Some expenses reported in the accompanying Statement of Activities do not require (or provide) the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in litigation/self insurance		(1,348)
Change in net assets of governmental activities (page 13)	\$	50,001

The notes to the basic financial statements are an integral part of this statement.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005 (in thousands)**

	AGENCY FUNDS
	<hr/>
ASSETS	
Pooled cash and investments (Notes 1 and 3)	\$ <u>3,229</u>
TOTAL ASSETS	<u><u>\$ 3,229</u></u>
LIABILITIES	
Deposits payable	\$ <u>3,229</u>
TOTAL LIABILITIES	<u><u>\$ 3,229</u></u>

The notes to the basic financial statements are an integral part of this statement.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005 (in thousands)**

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
<u>TOTAL AGENCY FUNDS</u>				
ASSETS				
Pooled cash and investments (Notes 1 and 3)	\$ 3,236	186	(193)	\$ 3,229
TOTAL ASSETS	<u>\$ 3,236</u>	<u>186</u>	<u>(193)</u>	<u>\$ 3,229</u>
LIABILITIES				
Deposits payable	\$ (3,236)	(260)	267	\$ (3,229)
TOTAL LIABILITIES	<u>\$ (3,236)</u>	<u>(260)</u>	<u>267</u>	<u>\$ (3,229)</u>

The notes to the basic financial statements are an integral part of this statement.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Los Angeles County Flood Control District (District) is empowered to carry out the objectives of the Los Angeles County Flood Control Act. Its objectives are to provide for the control and conservation of flood, storm, and other wastewater; and to protect from damage from such flood or storm waters the harbors, waterways, public highways, and property within the District. District powers are exercised through the Los Angeles County Board of Supervisors (Board), which acts as the District's governing body. The duties of the Board include approving the District's budget, determining the District's tax rates, approving contracts, and determining when to issue bonds authorized by the voters of the District.

Reporting Entity

District management has determined that the Public Works Financing Authority (PWFA) should be included in the basic financial statements of the District as a blended component unit. The PWFA is dependent upon the District for funding. The PWFA is a public agency organized pursuant to a Joint Exercise of Powers Agreement between the District and the County dated May 18, 1993. The PWFA is empowered to finance District capital assets through the issuance of bonds.

Blended component units are entities that, because of the closeness of the relationship with the primary government, should be blended in the basic financial statements as though they are part of the primary government. The District does not have any component units that should be discretely presented. Additional financial information for the PWFA may be obtained from the Department of Public Works at 900 South Fremont Avenue, Alhambra, California 91803.

The District is included as a blended component unit in the County financial reporting entity and is included in the County's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005. The financial resources and operations of the District are accounted for in the fund types discussed below.

Basis of Accounting and Measurement Focus

The basic financial statements of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Financial reporting incorporates all GASB pronouncements.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Government-wide Financial Statements

Government-wide financial statements display information about the District as a whole. The Statement of Net Assets and Statement of Activities display information about the District, except for fiduciary activities.

Basis of Accounting

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the basic financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Proceeds of long-term debt are recorded as a liability rather than as another financial source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability rather than as an expenditure.

Net assets are classified into the following three categories: (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted. Net assets are reported as restricted when their use has been constrained by externally imposed conditions. Such conditions include limitations imposed by creditors (such as through debt covenants), grantors, or laws or regulations of other governments. Net asset restrictions are also recognized when imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted net assets are available, restricted resources are used first and then unrestricted resources are used to the extent necessary.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fund Financial Statements

The accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures or expenses, as appropriate.

Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements are presented after the government-wide financial statements. These statements display information about major funds individually and in the aggregate for governmental funds.

The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for governmental and fiduciary fund categories are presented.

The District reports on the following major governmental funds:

- General Fund

The General Fund is available for any authorized purpose and is used to account for all financial resources except those required to be accounted for in another fund.

- Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

- Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of flood control structures financed by general long-term debt.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

- Fiduciary Funds (Agency Funds)

The Agency Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental entities, or other funds.

Basis of Accounting

In the fund financial statements, governmental funds are presented using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance operations during the year. Secured and unsecured property taxes and benefit assessments estimated to be collectable in future years are recorded as receivables and deferred revenue. The accrual of property tax revenues is generally limited to the extent that collection occurs within 60 days after the balance sheet date.

Interest income and charges for current services are accrued when earned and determined available. Changes in the fair value of investments are recognized as revenues at the end of each year. Federal and State grants are recorded as revenue when determined to be available, entitlement occurs, and related eligible expenditures are incurred. Revenues that are not accrued include licenses, permits, and miscellaneous revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt, which is recognized when payment is due.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Noncurrent portions of long-term receivables due from governmental funds are reported on the District's balance sheet and are offset by deferred revenue. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

As a result of its spending measurement focus, expenditure recognition for governmental fund types excludes transactions involving noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as another financing source rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Property Taxes

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the State's Government Code and Revenue and Taxation Code. Property is assessed at full cash or market value (with some exceptions). Pursuant to such legislation, the Board levies a property tax to support general operations of the various jurisdictions (ad valorem tax). This tax is limited to one percent (1%) of full cash value of property and collections are distributed in accordance with statutory formulae. The District receives an apportionment from the property tax levy which is a major source of District revenue.

Property taxes are levied on both real and personal property. Secured property taxes are levied during September of each year. They become a lien on real property on the January 1 preceding the fiscal year for which taxes are levied. These tax payments can be made in two equal installments; the first is due November 1 and is delinquent with penalties after December 10; the second is due February 1 and is delinquent with penalties after April 10. Secured property taxes which are delinquent and unpaid as of June 30 are declared to be tax defaulted and are subject to redemption penalties, costs, and interest when paid. If the delinquent taxes are not paid at the end of five (5) years, the property may be sold at public auction. The proceeds are used to pay the delinquent amounts due and any excess is remitted, if claimed, to the taxpayer.

Unsecured personal property taxes are not a lien against real property. These taxes are due on January 1 and become delinquent, if unpaid, on August 31. Unsecured property tax receivables are reduced by an amount estimated to be uncollectible, which is based on a five-year historical average collection percentage.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Benefit Assessments

The District, as authorized by the State's Government Code, levies an assessment on each parcel of real property within the District, except on property owned by Federal, State, or local government agencies. The assessment, as approved by the Board, is levied in proportion to benefits received and determined on the basis of the proportionate stormwater runoff from each parcel. The purpose of benefit assessments is to cover the cost of providing flood control services within the District not offset by other available revenues.

Deposits and Investments

In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," the accompanying financial statements reflect the fair value of investments. Changes in fair value that occur during a fiscal year are recognized as investment income reported for the fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

All cash and investment balances of the District are pooled and invested by the County Treasurer and are subject to withdrawal from the pool upon demand. Each fund's share in the pool is displayed in the accompanying financial statements as pooled cash and investments. Investment income earned by the pooled investments is allocated to various funds based on the fund's average cash and investment balance, as provided by Government Code Section 53647.

The fair value of pooled investments is determined annually and based on current market prices. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawals rather than market value.

Capital Assets

Capital assets, which include land, buildings and improvements, equipment, and infrastructure, are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital outlays are recorded as expenditures of the General and Capital Project Funds and as assets in the government-wide financial statements to the extent the District's capitalization threshold is met.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

The District's capitalization thresholds are \$5,000 for equipment, \$100,000 for buildings and improvements, and \$100,000 for infrastructure assets. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements that significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

Buildings and Improvements	10 to 50 years
Equipment	2 to 35 years
Infrastructure	10 to 50 years

Pursuant to GASB Statement No. 34, the requirement to record and depreciate infrastructure assets acquired prior to July 1, 2001, has been deferred until the fiscal year beginning July 1, 2005. As a result, the governmental activities column in the accompanying government-wide financial statements as of June 30, 2005, does not reflect infrastructure assets obtained or completed prior to July 1, 2001. The accompanying government-wide financial statements include infrastructure assets that were capitalized as of July 1, 2001. Infrastructure assets are depreciated upon completion. A schedule of capital assets is presented in Note 4.

New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 40

For the fiscal year ended June 30, 2005, the County implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3." This Statement addresses common deposit and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also are required to be disclosed. Implementation of GASB Statement No. 40 did not have an impact on the District or the County's financial statements for the year ended June 30, 2005, but required additional disclosures (see Note 3 on pages 28 and 29 of this report and Note 4 to the County of Los Angeles Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005) related to deposits and investment risks.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

2. TRANSACTIONS WITH THE COUNTY

Pursuant to an agreement between the District and the County, the County is responsible for providing all necessary employees to the District for purposes of performing all District functions. Costs related to these employees are billed to the District based upon actual time spent providing services to the District. Supply and equipment costs are also billed based upon actual usage by the District. Accordingly, the District has no supplies inventory or employee-related liabilities (e.g., pension, compensated absences, and workers' compensation). For the year ended June 30, 2005, the County's billings to the District's General Fund approximated \$88,839,000. Costs associated with shared equipment that are funded through the Department of Public Works Internal Service Fund are recorded in the District's financial statements as "Contribution to the County of Los Angeles." For the year ended June 30, 2005, this contribution from the District's General Fund was \$609,000.

The District has numerous transactions with the other funds of the County in order to finance operations, provide services, purchase assets and apportion property taxes. To the extent that certain transactions between the District and these funds had not been paid or received as of June 30, 2005, the net balances of interfund amounts receivable or payable have been converted to cash for financial statement presentation.

On April 16, 1990, the District entered into a cost-sharing agreement with the County relative to the Public Works headquarters building. The agreement provides for the County to make rental payments to the District in exchange for its occupancy of the headquarters. Furthermore, the County has agreed to pay for its proportionate share of the headquarters operating costs. For the year ended June 30, 2005, County rental payments to the District totaled \$3,234,000.

The District issued certificates of participation in 1987 to acquire the headquarters building. These certificates were defeased and replaced with refunding bonds in August 1993. The 1993 refunding bonds were refunded in January 2003 (see Note 5). The District's management has no intention of selling the headquarters. However, in the event the headquarters were to be sold, the proceeds of the sale in excess of any outstanding indebtedness would be shared by the District and the County in proportion to each entity's share of the headquarters' cost.

3. CASH AND INVESTMENTS

Pooled Cash and Investments

As provided for by the Government Code, certain cash balances of the District are pooled and invested by the County Treasurer and are subject to withdrawal from the pool upon demand. As of June 30, 2005, the District's share of the total pooled

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

3. CASH AND INVESTMENTS-Continued

cash and investments included in the Statement of Net Assets and Balance Sheet under "pooled cash and investments" was \$116,260,000, which represents approximately 0.80% of the total pool. The "pooled cash and investments" reported on the Statement of Fiduciary Net Assets was \$3,229,000.

Interest earned on pooled investments is deposited monthly based upon the average daily deposit balance during the allocation period. Investment gains and losses are proportionately shared by the entities participating in the pool as an increase or reduction in interest earnings. The net unrealized loss on the District's proportionate share of investments held in the Treasurer's Pool was \$279,000 as of June 30, 2005. Statutes authorize the pool to invest in obligations of the United States Treasury, federal agencies, municipalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, negotiable certificates of deposit, floating rate notes, repurchase agreements, and reverse repurchase agreements.

Investments are managed by the County Treasurer, who provides status reports on a monthly basis to the Board. In addition, the County Treasury Oversight Committee reviews and monitors the County's investment policy. The Committee membership includes the Treasurer and Tax Collector, Auditor-Controller, Superintendent of Schools, Chief Administrative Officer, and a non-County representative.

GASB Statement No. 3 exempts participating entities from classifying their pool investments in categories of credit risk; however, GASB Statement No. 40 requires disclosures of common deposit and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk. Information on common deposit and investment risks for the entire County Treasurer Pool is presented in Note 4 to the County of Los Angeles Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005, is as follows (in thousands):

	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2005</u>
<u>Governmental Activities</u>				
Capital assets, not depreciated:				
Land	\$ 4,438	\$ 799		\$ 5,237
Construction-in-progress - buildings and improvements	2,941	954	(159)	3,736
Construction-in-progress - infrastructure	<u>47,388</u>	<u>27,300</u>	<u>(23,160)</u>	<u>51,528</u>
Subtotal	<u>54,767</u>	<u>29,053</u>	<u>(23,319)</u>	<u>60,501</u>
Capital assets, being depreciated:				
Buildings and improvements	64,925	160	(205)	64,880
Equipment	1,819	25	(178)	1,666
Infrastructure	<u>60,412</u>	<u>31,840</u>	<u></u>	<u>92,252</u>
Subtotal	<u>127,156</u>	<u>32,025</u>	<u>(383)</u>	<u>158,798</u>
Less accumulated depreciation:				
Buildings and improvements	20,168	1,151	(50)	21,269
Equipment	1,538	51	(178)	1,411
Infrastructure	<u>6,272</u>	<u>583</u>	<u></u>	<u>6,855</u>
Subtotal	<u>27,978</u>	<u>1,785</u>	<u>(228)</u>	<u>29,535</u>
Total capital assets, being depreciated, net	<u>99,178</u>	<u>30,240</u>	<u>(155)</u>	<u>129,263</u>
Total capital assets, net	<u><u>\$153,945</u></u>	<u><u>59,293</u></u>	<u><u>(23,474)</u></u>	<u><u>\$189,764</u></u>

Depreciation Expense

Depreciation expense was charged to functions/programs of the Flood Control District as follows (in thousands):

Governmental activities:

Public protection	\$ 1,785
Total depreciation expense, governmental activities	<u><u>\$ 1,785</u></u>

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

5. LONG-TERM OBLIGATIONS

Long-term obligations of the District consist of general obligation bonds, capital construction and refunding bonds, and other liabilities (Note 7).

General Obligation Bonds

Pursuant to the Los Angeles County Flood Control Act and subject to voter approval, the District is authorized to issue bonds. The proceeds from the sale of bonds were used for the construction of storm drain systems. Revenue for retirement of such bonds is provided from ad valorem taxes on property within the District. The District's general obligation bonds outstanding at June 30, 2005, are summarized as follows (in thousands):

\$252,000 authorized 1970, \$252,000 issued; due in annual installments through 2008; interest at 4.0% to 8.2%	\$1,990
\$60,000 refunding bonds authorized 1993, \$50,290 issued; due in annual installments through 2006; interest at 2.6% to 5.15%	<u>275</u> <u>\$2,265</u>

Aggregate debt service requirements to maturity of general obligation bonds as of June 30, 2005, are as follows (in thousands):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 1,185	\$ 103
2007	710	43
2008	370	9
Total	<u>\$ 2,265</u>	<u>\$ 155</u>

Capital Construction and Refunding Bonds

On January 30, 2003, the Los Angeles County Public Works Financing Authority issued \$143,195,000 in refunding revenue bonds, maturing on various dates between 2004 and 2017, with an average interest rate of 3.34%. These bonds were issued to refund the outstanding principal amount of \$147,565,000 of capital construction and refunding bonds issued in 1993 at an interest rate of 5%.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

5. LONG-TERM OBLIGATIONS-Continued

The District's capital construction and refunding bonds outstanding at June 30, 2005, are summarized as follows (in thousands):

\$143,195 issued in 2003; due in
annual installments through 2017;
average interest at 3.34% \$119,615

Aggregate maturity of capital construction and refunding bonds as of June 30, 2005, are as follows (in thousands):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 12,475	\$ 5,102
2007	12,860	4,728
2008	13,245	4,342
2009	13,740	3,845
2010	14,300	3,283
2011-2015	50,010	5,925
2016-2017	2,985	189
Total	<u>\$119,615</u>	<u>\$27,414</u>

Changes in Long-Term Obligations

The following is a summary of long-term obligations for the fiscal year ended June 30, 2005 (in thousands):

	<u>Balance July 1, 2004</u>	<u>Additions (Deletions)</u>	<u>Maturities</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
Bonds Payable	\$137,945		(16,065)	\$121,880	\$13,660
Other Liabilities (Note 7)	4,044	1,348		5,392	2,550
Total	<u>\$141,989</u>	<u>1,348</u>	<u>(16,065)</u>	<u>\$127,272</u>	<u>\$16,210</u>

6. INTERFUND TRANSACTIONS

Interfund transfers were made during the year from the General and Capital Projects Funds to the Debt Service Fund in accordance with long-term debt covenants. Interfund transfers to/from other funds for the year ended June 30, 2005, are as follows (in thousands):

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General Fund	Debt Service Fund	\$17,578
Capital Projects Fund	Debt Service Fund	4
Total		<u>\$17,582</u>

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

7. RISK MANAGEMENT

The District has programs to address public liability and property damage. There were no settlements related to these programs that exceeded insurance coverage during Fiscal Year 2004-05. The District bears the risk for all loss exposure in excess of insurance coverage. Claims expenditures and liabilities are reported when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. The District utilizes actuarial studies, historical data, and individual claims reviews to estimate these liabilities.

As of June 30, 2005, the District's best estimate of these probable judgment liabilities is \$5,392,000. Changes in the reported liability since June 30, 2003, resulted from the following (in thousands):

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimate	Claim Payments	Balance at Fiscal Year-End
2003-04	\$2,849	\$4,058	(\$2,863)	\$4,044
2004-05	\$4,044	\$1,509	(\$161)	\$5,392

8. PROPOSITION 218

In November 1996, voters approved the "Right to Vote on Taxes Act" (Proposition 218), which limits the District's ability to levy additional property-related benefit assessments without owner approval. In September 1998, the Board approved ordinance amendments to bring the County's general purpose taxes into conformance with Proposition 218. The District's existing benefit assessments are exempt under Proposition 218. However, any future increases to property-related benefit assessments may be subject to property owner approval.

9. FEDERAL CLEAN WATER ACT

The Federal Clean Water Act mandates that the United States Environmental Protection Agency and all states establish Total Maximum Daily Load (TMDL) regulations to restore and protect the health of the nation's surface water bodies when they can no longer attain beneficial uses due to pollution despite existing pollution control programs. A TMDL is simply defined as the amount of a pollutant that a water body can receive while meeting water quality standards. In Los Angeles County, the Los Angeles Regional Water Quality Control Board is responsible for developing TMDLs. The first TMDL in the County was established in 2000; in the ensuing years, 9 more TMDLs have been established. By 2012, up to 30 TMDLs will need to be established to restore and protect the streams, lakes,

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

9. FEDERAL CLEAN WATER ACT - Continued

and shorelines within the County. Achieving compliance with the TMDLs poses monumental technological, economical, and political challenges to the District.

On September 3, 2003, the District's Board authorized the settlement of a lawsuit against the State Water Resources Control Board and the Los Angeles Regional Water Quality Control Board that challenged the adoption of TMDLs that set a discharge limit of zero trash in the Los Angeles River and Ballona Creek and Wetland. However, that settlement was effectively made void as a result of a tentative judicial order that required the State to redraft the TMDL discharge limit requirements. The State subsequently filed an appeal challenging the judicial order; the case is currently under consideration by the appeals court.

The District is currently taking measures to comply with the current and forthcoming TMDL requirements. It is anticipated that the trash TMDL discharge limit requirement will be revisited because of the lawsuit and the zero tolerance requirement will be reevaluated for cost effectiveness and feasibility. The financial impact to the Flood Control District in complying with the TMDL requirements over the next several years and beyond will be significant.

10. SUBSEQUENT EVENTS

Revenue Bonds Series 2005A

On July 13, 2005, the Los Angeles County Public Works Financing Authority issued \$20,540,000 in revenue bonds, maturing on various dates between 2006 and 2025, with interest rates ranging from 4% to 4.125%. Bond proceeds will be used to finance the design, renovation, improvement, and seismic retrofitting of the District's headquarters building and to pay certain costs of issuance incurred in connection with the Series 2005A Bonds. Specific disclosures related to the revenue bonds are as follows (in thousands):

Proceeds of revenue bonds issued	\$20,540
Bond Premium	<u>346</u>
Deposit to escrow	\$20,886
Cost of issuance	(269)
Underwriter's discount	<u>(158)</u>
Total deposit to the Construction Fund	<u>\$20,459</u>

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

San Gabriel Dam and Reservoir Post-Fire Sediment Removal

On October 21, 2003, the Board approved a project to address the sediment removal related to the 2002 fire damage in the Angeles National Forest. On March 16, 2004, the Board awarded a \$34,170,000, five-year contract for this sediment removal project. The District has funded \$20 million of the contract in Fiscal Years 2003-04 and 2004-05 and will fund the remainder of the contract over the next 2 ½ to 4 years.

REQUIRED SUPPLEMENTARY INFORMATION
LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL ON BUDGETARY BASIS
GENERAL FUND AND DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005 (in thousands)

	GENERAL FUND				DEBT SERVICE FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
REVENUES:								
Taxes	\$ 61,893	\$ 68,951	\$ 68,675	\$ (276)	\$ 1,628	\$ 1,628	\$ 2,361	\$ 733
Licenses and permits	622	622	308	(314)				
Fines, forfeitures, and penalties	1,522	1,522	1,205	(317)	4	4	21	17
Interest/Investment income	2,000	2,000	2,442	442	21	21	48	27
Rents and royalties	7,968	8,306	5,191	(3,115)				
Intergovernmental revenues:								
Federal	4,627	4,627	4,065	(562)				
State	5,414	5,414	2,633	(2,781)				
Other	1,891	1,891	2,142	251				
Charges for services	112,397	112,397	112,602	205				
Miscellaneous	262	262	1,129	867				
TOTAL REVENUES	198,596	205,992	200,392	(5,600)	1,653	1,653	2,430	777
EXPENDITURES:								
Current - public protection:								
Services and supplies	188,587	190,125	186,984	(3,141)				
Other charges	19,682	19,182	17,944	(1,238)				
Capital assets	32,890	32,190	1,909	(30,281)				
Debt Service:								
Principal					3,890	3,894	3,890	(4)
Interest					271	271	270	(1)
TOTAL EXPENDITURES	241,159	241,497	206,837	(34,660)	4,161	4,165	4,160	(5)
REVENUES OVER/(UNDER) EXPENDITURES	(42,563)	(35,505)	(6,445)	29,060	(2,508)	(2,512)	(1,730)	782

Continued...

REQUIRED SUPPLEMENTARY INFORMATION
LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL ON BUDGETARY BASIS
GENERAL FUND AND DEBT SERVICE FUNDS - Continued
FOR THE YEAR ENDED JUNE 30, 2005 (in thousands)

	GENERAL FUND				DEBT SERVICE FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
OTHER FINANCING SOURCES (USES):								
Sales of fixed assets	\$ 200	\$ 200	\$ 1,281	\$ 1,081				
Transfers out	(1,874)	(1,874)	(609)	1,265				
Long-term debt proceeds	27,810	27,810	-	(27,810)				
Appropriation for contingencies	(53)	(7,111)	-	7,111	\$ (49)	\$ (49)		\$ 49
Changes in reserves and designations	1,378	1,378	4,153	2,775	1,476	1,480	1,476	(4)
OTHER FINANCING SOURCES (USES)-NET	27,461	20,403	4,825	(15,578)	1,427	1,431	1,476	45
NET CHANGE IN FUND BALANCE	(15,102)	(15,102)	(1,620)	13,482	(1,081)	(1,081)	(254)	827
FUND BALANCE, JULY 1, 2004	15,102	15,102	15,102		1,081	1,081	1,081	-
FUND BALANCE, JUNE 30, 2005	\$ -	\$ -	\$ 13,482	\$ 13,482	\$ -	\$ -	\$ 827	\$ 827

See accompanying notes to required supplementary information.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. BUDGETARY DATA

In accordance with the provisions of Section 29000-29144 of the State's Government Code, commonly known as the County Budget Act, a District budget must be adopted on or before August 30 for each fiscal year. Budgets are adopted for the General Fund and the Debt Service Fund on a basis of accounting which is different from generally accepted accounting principles (GAAP). Note 2 indicates specific differences between the two bases of accounting as of June 30, 2005. The major areas of difference are as follows:

- Under the budgetary basis, designations are recorded as other financing uses at the time they are established. Although designations are not legal commitments, the District recognizes them as uses of budgetary fund balance. Designations that are subsequently cancelled or otherwise made available for appropriation are recorded as other financing sources.
- Under the budgetary basis, encumbrances and other reserves are also recorded as other financing uses at the time they are established. For encumbrances, this occurs at the time contracts or purchase agreements are entered into. Under the GAAP basis, these obligations are only recognized when goods are received or services are rendered. Other reserves are also recognized as other financing uses to indicate that certain assets are not available for appropriation. Cancellations of encumbrances and other fund balance reserves are recorded as other financing sources for budgetary purposes.
- Under the budgetary basis, property tax revenues are recognized to the extent that they are collectible within one year after year-end. Under the GAAP basis, property tax revenues are recognized only to the extent that they are collectible within 60 days.
- Under the GAAP basis, investment income includes the effect of changes in the fair value of investment. Under the budgetary basis, investment income is recognized prior to the effect of such fair value changes.

Expenditures are controlled at the object level for all District budgets, except for fixed asset expenditures, which are controlled at the subobject level. Expenditures did not exceed the related appropriations within any fund at June 30, 2005.

Encumbrances are set aside appropriations related to purchase orders or contracts for goods or services and are recorded to assure budgetary control and accountability in the General Fund and Capital Projects Fund. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately expected to result if the unperformed purchase orders or contracts in process at year-end are completed. Encumbrances outstanding at year-end do not

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-Continued

1. BUDGETARY DATA-Continued

constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end and encumbrances outstanding at that time are reported as reservations of fund balances for subsequent year expenditures (see Note 2).

Any excess of budgeted expenditures and other financing uses over revenue and other financing sources is financed by beginning available fund balance as provided for in the County Budget Act.

2. RECONCILIATION BETWEEN BUDGETARY BASIS AND GAAP

The District's Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual on Budgetary Basis for the governmental funds has been prepared on the budgetary basis of accounting which is different from GAAP.

The amounts presented for the governmental fund statements are based on the modified accrual basis (GAAP) of accounting and differ from the amounts presented on the budgetary basis of accounting. The following schedule is a reconciliation of the budgetary and GAAP basis fund balances as of June 30, 2005 (in thousands):

	General Fund	Debt Service Fund
Fund Balance – Budgetary Basis	\$ 13,482	\$827
Reserves and Designations	112,613	728
Subtotal	126,095	1,555
Adjustments:		
Change in Accounts Payable Accruals	(1,850)	
Change in Revenue Accruals	(4,798)	48
Fund Balance – GAAP Basis	<u>\$119,447</u>	<u>\$1,603</u>

APPENDIX – PHOTO GALLERY

Headquarters Seismic Retrofit Project



Thomas A. Tidemanson
Public Works Headquarters

APPENDIX – PHOTO GALLERY

Flood Barrier Projects



Dominguez Gap Barrier Project, Phase 4A, Unit 7B, Part 2B



APPENDIX – PHOTO GALLERY

Channel Improvements



Pico Canyon Channel Stabilizers and Invert Access Ramp



Storm Drain Improvements



Palos Verdes – Waleria Drain